

AMENDED IN ASSEMBLY JUNE 14, 2011

AMENDED IN SENATE MAY 4, 2011

SENATE BILL

No. 617

Introduced by Senator Calderon
(Coauthor: Senator Alquist)

February 18, 2011

An act to amend Sections 13401, 13402, 13403, 13404, 13405, 13406, and 13407 of the Government Code, relating to state government.

LEGISLATIVE COUNSEL'S DIGEST

SB 617, as amended, Calderon. State government: financial accountability.

(1) The Financial Integrity and State Manager's Accountability Act of 1983 provides that state agency heads are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies, as specified.

This bill would require that effective, independent, and ongoing monitoring of the internal accounting and administrative controls of state agencies be included within that system or systems.

(2) The act requires that the Director of Finance establish a general framework to guide state agencies in conducting internal reviews of their systems of internal accounting and administrative controls.

This bill would require that the Director of Finance also establish a general framework of recommended practices to guide state agencies in conducting active ongoing monitoring of processes for internal accounting and administrative control.

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

SECTION 1. Section 13401 of the Government Code is amended to read:

13401. (a) The Legislature hereby finds the following:

(1) Active oversight processes, including regular and ongoing monitoring processes, for the prevention and early detection of fraud and errors in program administration are vital to *public confidence* and the appropriate and efficient use of public resources.

(2) Fraud and errors in state programs are more likely to occur from a lack of effective systems of internal accounting and administrative control in the state agencies when active monitoring measures are not maintained to ensure that accounting and administrative controls are functioning properly.

(3) Effective systems of internal accounting and administrative control provide the basic foundation upon which a structure of public accountability must be built.

(4) Effective systems of internal accounting and administrative control are necessary to ensure that state assets and funds are adequately safeguarded, as well as to produce reliable financial information for the agency.

(5) Systems of internal accounting and administrative control are necessarily dynamic and must be routinely monitored, continuously evaluated, and, where necessary, improved.

(6) Reports regarding the continuing adequacy of the systems of internal accounting and administrative control of each state agency are necessary to enable the executive branch, the Legislature, and the public to evaluate the agency's performance of its public responsibilities and accountability.

(b) The Legislature declares it to be the policy of the State of California that:

(1) Each state agency must maintain effective systems of internal accounting and administrative control as an integral part of its management practices.

(2) The systems of internal accounting and administrative control of each state agency shall be evaluated on an ongoing basis through regular and ongoing monitoring processes and, when detected, weaknesses must be promptly corrected.

(3) All levels of management of the state agencies must be involved in assessing and strengthening the systems of internal accounting and administrative control to minimize fraud, errors, abuse, and waste of government funds, however, key monitoring processes should be structured to ensure the independence and objectivity of persons tasked with such monitoring.

SEC. 2. Section 13402 of the Government Code is amended to read:

13402. State agency heads are responsible for the establishment and maintenance of a system or systems of internal accounting, administrative control, and effective, independent, and objective ongoing monitoring of the internal accounting and administrative controls within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and ensuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

SEC. 3. Section 13403 of the Government Code is amended to read:

13403. (a) Internal accounting and administrative controls, if maintained and reinforced through effective monitoring systems and processes, are the methods through which reasonable assurances can be given that measures adopted by state agency heads to safeguard assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies are being followed. The elements of a satisfactory system of internal accounting and administrative control, shall include, but are not limited to, the following:

(1) A plan of organization that provides segregation of duties appropriate for proper safeguarding of state agency assets.

(2) A plan that limits access to state agency assets to authorized personnel who require these assets in the performance of their assigned duties.

(3) A system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

(4) An established system of practices to be followed in performance of duties and functions in each of the state agencies.

1 (5) Personnel of a quality commensurate with their
2 responsibilities.

3 (6) An effective system of internal review.

4 (b) State agency heads shall follow these standards of internal
5 accounting and administrative control in carrying out the
6 requirements of Section 13402.

7 (c) Monitoring systems and processes are vital to the following:

8 (1) Ensuring that routine application of internal controls do not
9 diminish their efficacy over time.

10 (2) Providing timely notice and opportunity for correction of
11 emerging weaknesses with established internal controls.

12 (3) Facilitating public resources and other decisions by ensuring
13 availability of accurate and reliable information.

14 (4) Facilitating production of timely and accurate financial
15 reports.

16 (d) State agency heads shall implement systems and processes
17 to ensure the independence and objectivity of the monitoring of
18 internal accounting and administrative control as an ongoing
19 activity in carrying out the requirements of Section 13402.

20 SEC. 4. Section 13404 of the Government Code is amended
21 to read:

22 13404. As used in this chapter:

23 (a) "Governor" means the Governor of California.

24 (b) "Controller" means the Controller of California.

25 (c) "Director" means the Director of Finance.

26 (d) "Attorney General" means the Attorney General of
27 California.

28 (e) "Treasurer" means the Treasurer of California.

29 SEC. 5. Section 13405 of the Government Code is amended
30 to read:

31 13405. (a) To ensure that the requirements of this chapter are
32 fully complied with, the head of each state agency that the director
33 determines is covered by this section shall, on a biennial basis but
34 no later than December 31 of each odd-numbered year, conduct
35 an internal review and prepare a report on the adequacy of the
36 agency's systems of internal accounting, administrative control,
37 and monitoring practices in accordance with the guide prepared
38 by the director pursuant to subdivision (d).

39 (b) The report, including the state agency's response to review
40 recommendations, shall be signed by the head of the agency and

1 addressed to the agency secretary, or the director for agencies
2 without a secretary. Copies of the reports shall be submitted to the
3 Legislature, the State Auditor, the Controller, the Treasurer, the
4 Attorney General, the Governor, the director, and to the State
5 Library where they shall be available for public inspection.

6 (c) The report shall identify any material inadequacy or material
7 weakness in an agency's systems of internal accounting and
8 administrative control that prevents the head of the agency from
9 stating that the agency's systems comply with this chapter. No
10 later than 30 days after the report is submitted, the agency shall
11 provide to the director a plan and schedule for correcting the
12 identified inadequacies and weaknesses, which shall be updated
13 every six months until all corrections are completed.

14 (d) The director, in consultation with the State Auditor and the
15 Controller, shall establish, and may modify from time to time as
16 necessary, a system of reporting and a general framework to guide
17 state agencies in conducting internal reviews of their systems of
18 internal accounting and administrative control.

19 (e) The director, in consultation with the State Auditor and the
20 Controller, shall establish, and may modify from time to time as
21 necessary, a general framework of recommended practices to guide
22 state agencies in conducting active, ongoing monitoring of
23 processes for internal accounting and administrative control.

24 SEC. 6. Section 13406 of the Government Code is amended
25 to read:

26 13406. (a) The head of the internal audit staff of a state agency
27 or a division, as specified by the director, or, in the event there is
28 no internal audit function, a professional accountant, if available
29 on the staff, designated as the internal control person by the head
30 of the state agency or a division, shall receive and investigate any
31 allegation that an employee of the agency provided false or
32 misleading information in connection with the review of the
33 agency's systems of internal accounting and administrative control
34 or in connection with the preparation of the biennial report on the
35 systems of internal accounting, administrative control, and
36 monitoring practices.

37 (b) If, in connection with any investigation under subdivision
38 (a), the head of the internal audit staff or the designated internal
39 control person determines that there is reasonable cause to believe
40 that false or misleading information was provided, he or she shall

1 report in writing that determination to the head of the agency or
2 the division.

3 (c) The head of the agency or division shall review any matter
4 referred to him or her under subdivision (b), shall take such
5 disciplinary or corrective action as he or she deems necessary, and
6 shall forward a copy of the report, indicating therein the action
7 taken, to the director within 90 days of the date of the report.

8 SEC. 7. Section 13407 of the Government Code is amended
9 to read:

10 13407. Because sound internal accounting and administrative
11 controls and the regular and ongoing monitoring of those internal
12 controls significantly inhibits waste of resources and thereby
13 creates savings, the director and agencies and divisions shall carry
14 out the provisions of this chapter by using existing resources.